



Interim  
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Commissioner  
Joseph McDermott

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*City & Town* is published by the Massachusetts Department of Revenue's Division of Local Services (DLS) and is designed to address matters of interest to local officials.

Editor: Dan Bertrand

Editorial Board: Joe McDermott, Robert Bliss, Zack Blake, Tony Rassias, Tom Dawley, Linda Bradley and Patricia Hunt

## Premium Information

**Tony Rassias - Deputy Director of Accounts**

The Bureau has received many questions regarding the proper application of premiums from borrowed funds. Certain rules have changed on the matter and they can be very confusing. Therefore, the Bureau of Accounts would like to offer the following FAQs.

### **The town borrowed funds and received a premium. Can the premium be used to reduce issuance costs?**

Premiums received from the sale of bonds and notes by a city, town or district may be used to reduce issuance costs, such as bond insurance and underwriting, of their associated bonds and notes. Issuance costs are usually paid for from the bond proceeds first, if budgeted there, or if not, from the premium.

### **Must the premium be appropriated to offset the issuance costs?**

No. The premium may be spent for this purpose without appropriation.

### **Can any remaining premium be reserved per the Uniform Massachusetts Accounting System (UMAS)?**

It depends. Normally, the premium remaining after paying issuance costs, or net premium, is general revenue of the city, town or district. [MGL c. 44 sect. 20.](#)

For a city, town or tax rate setting district, if received prior to the

certification of the tax rate by the Bureau of Accounts, the net premium may be used as an estimated receipt for that fiscal year. If received prior to March 31 and not used as an estimated receipt, the net premium may become part of a request to update free cash. Otherwise, the net premium must close to the General Fund as of June 30.

However, if there is an enterprise fund or debt exclusion associated with the debt, there is a different approach.

### **What happens if there is an enterprise fund associated with the debt?**

According to [IGR 08-101](#) on enterprise funds, the net premium belongs to the enterprise fund.

If received prior to the certification of the tax rate by the Bureau of Accounts, the net premium may be used as estimated revenue of the enterprise fund. If received prior to March 31 and was not used as estimated revenue, the net premium may become part of a request to update retained earnings. Otherwise, the net premium must close to the enterprise fund balance as of June 30.

### **What happens if there is a debt exclusion associated with the debt?**

When a debt exclusion has been voted, [Bulletin 2013-01B](#) details (a) the reservation requirement through maturity method or (b) an alternative use method for the net premium.

The reservation requirement through maturity method requires the net premium to be reserved and amortized over the life of the debt from which it was received. Because the debt exclusion must by law be the true interest cost, the amortized net premium must reduce excluded debt service annually.

The alternative use method allows a reserved premium to be appropriated to (1) pay project costs directly or (2) pay-down BANS for the project, so long as there is debt authorized that has not yet been issued. That unissued portion of the project's authorization must then be rescinded by the legislative body in the same amount as the net premium appropriated.

The provisions regarding the net premium as general revenue and the reservation requirement also apply to a regional school district. The regional school district then passes through the amortized net premium via the assessment. The alternative method is available to a regional

school district only if all members of the district have approved the debt exclusion on the project.

### **How is a reserved net premium reflected on the next Tax Rate Recap?**

The reserved net premium must be applied annually to reduce the debt exclusion by a city or town in either one of two ways:

1. By appropriating the reserved amount to cover a portion of that fiscal year's debt service on the associated debt (the recommended practice) and reporting the action on page 4, column (d) of the Tax Rate Recap and on Schedule B-2. Schedule DE-1, then, will only show the balance being appropriated; or
2. By indicating the reserved amount on Schedule DE-1 as an adjustment to the current fiscal year's debt service appropriated (column H) and by including the same amount as a Miscellaneous Non-Recurring estimated receipt on page 3 of the Tax Rate Recap.

The net premium passed through by a regional school district to its applicable members should have already reduced the members' debt assessment and only the remainder need be appropriated by the city or town and shown on Schedule DE-1.

### **How is the alternative use method for premiums reported on the Tax Rate Recap?**

For the alternative use method, report the appropriation of the premium on the Tax Rate Recap, page 4, column (d) of the Tax Rate Recap and on Schedule B-2. In addition, report the rescission of authorized debt as a negative amount on page 4, column, (g) of the Tax Rate Recap.

### **How can a reserved net premium be invested?**

Treasurers should consult with bond counsel to ensure that the investment is consistent with federal arbitrage regulations on tax-exempt borrowings.

### **Why do the auditors amortize the net premium on the financial statements?**

For purposes of your entity's audited financial statements only, Generally Accepted Accounting Principles (GAAP) apply de minimus

premiums to offset the interest expense in the year received, apply significant Bond Anticipation Note premiums to offset the interest expense in the year paid and amortize material bond premiums to offset the interest expense over the life of that bond.

There may be other scenarios not covered in this article. If so, contact your Bureau of Accounts field representative for more information. We hope you've found this helpful.

## **By the Numbers**

In order to provide an update on the progress of the ongoing tax rate and certification season, below please find an overview of the ongoing process. In addition, we have included the below graph comparing New Growth and Tax Rate approval timelines from FY14 to FY15 (as of 12/15/14). The following information is accurate as of close of business on December 17th, 2014:

Preliminary Certifications: 110 Communities Approved (110 Submitted)

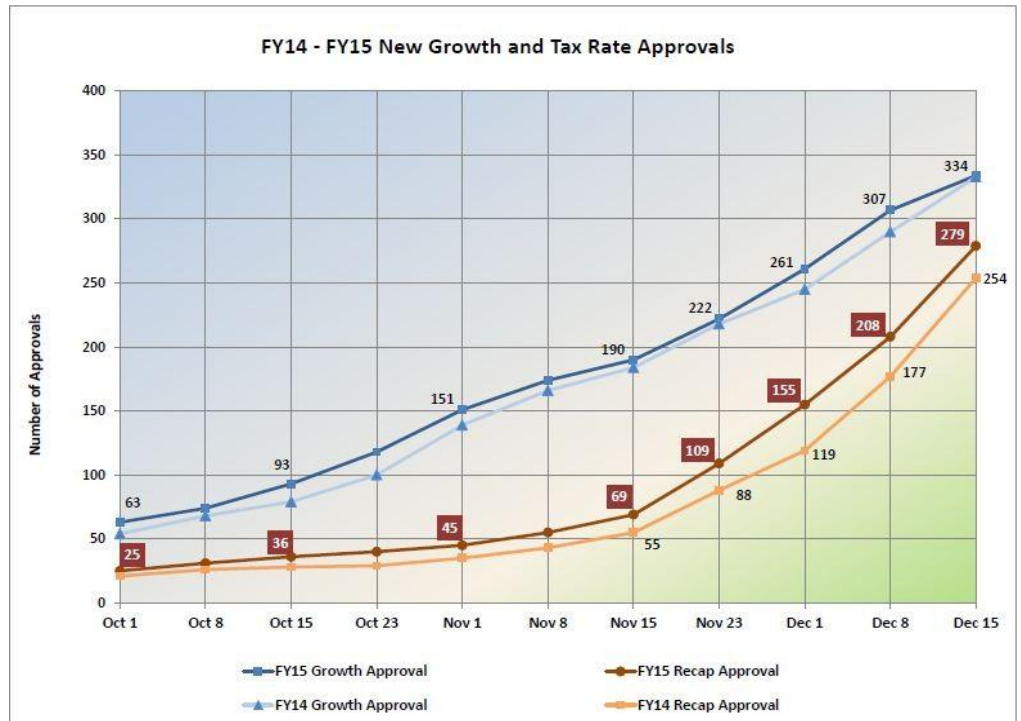
Final Certification: 106 Communities

La4/ New Growth: 334 Approved (341 Submitted)

Tax Rates: 308 Approved

Balance Sheets: 249 Approved

Aggregate Free Cash Approved Total: \$913,693,221



To view larger image, click [here](#).

## Ask DLS

This month's *Ask DLS* features a frequently asked question about valuations. Please let us know if you have other areas of interest or send a question to [cityandtown@dor.state.ma.us](mailto:cityandtown@dor.state.ma.us). We would like to hear from you.

**Could you explain the use of square foot valuations? How is it that a million dollar home has a square foot valuation below that of a home valued much less?**

Assessments are based on market indicators for building style, size, grade and condition. Typically, a price per square foot is determined as base cost for a particular type of construction or style. This is determined through sales or discussions with local builders. As a building increases in size, the price per square foot becomes less. It is an economic principle that as size or quantity increases, the price per square foot or unit decreases. A purchaser is not going to pay double the price for double the size in the marketplace. Therefore, there is a size adjustment to the price per square foot but the resulting value for a larger property (all other factors such as grade and condition remaining constant) will be larger. Again, the market sales will dictate this in any particular community.

## **BLA's Grace Sandell Retiring from DLS**

### **Bureau of Local Assessment**

After more than 16 years as a vital member of the Bureau of Local Assessment (BLA), Certification Advisor Grace Sandell will officially retire on January 12th. Grace covered all of Plymouth and Barnstable counties plus Nantucket Island. Besides all of her certification communities, many other assessors know Grace from teaching the DOR Class 101 and providing data to the Farm Advisory Committee.

Grace is a long time resident of Marshfield and has been married to her husband John for 40 years. They have two children, Daniel and Katherine. Among her interests, Grace is an avid trap shooter, loves archery and, just recently, began pheasant hunting.

"In her more than 16 years with the Bureau, Grace Sandell has been a beacon of light in this area - working with local assessors on every possible issue relating to value matters, ranging from state-owned land values, to farmland values, to assessing methodologies," said BLA Director Joanne Graziano. "She is always reliable, professional, conscientious, smart and willing to drive out to the outer Cape. And she introduced us to Pivot Tables! Her perspective has been invaluable and I thank her for fostering the partnership that exists between DLS and the town assessors. She will be missed."

BLA Assistant Bureau Chief Brenda Cameron noted "Grace's strong technical skills, respect of her communities and completion of her work assignments in a very timely and efficient manner will be missed by all. She has earned the admiration of her co-workers for her strong work ethic, her stories and a sense of humor that delighted all of us."

Grace wished her colleagues well stating, "It has been a great opportunity for me to work for the Bureau of Local Assessment. I appreciated both the time spent with the people in our Boston office and in the field. Not only am I lucky to have had a spectacular scenic territory to work in, but I'm especially lucky to have had a wonderful group of people to work with as well. Assessors have difficult jobs and the job as a field representative gives you the unique perspectives from both sides. I feel that I've learned a lot and will look back on this time with wonderful memories."

We'll miss you, Grace. Best of luck in retirement!

## Revised Forms of List for FY2016

The Division of Local Services has posted on its website [Bulletin 2014-06B](#) which advises Boards of Assessors about revisions made to business forms of list, [State Tax Forms 2](#) and [2MT](#), for fiscal year 2016. The revisions reflect a change in the local tax treatment of financial institutions and insurance companies that takes effect on January 1, 2015 for fiscal year 2016. St. 2014, c. 165, sect. 90.

Financial institutions and insurance companies organized as limited liability companies or other non-corporate entities that file federally as corporations will now be treated as incorporated financial institutions and insurance companies for local tax purposes under G.L. c. 59, sect. 5(16)(1). They will be exempt from taxation on all property except their real estate, poles, underground conduits, wires and pipes and machinery used in manufacture or supplying or distributing water.

Previously, this exemption only applied to incorporated financial institutions and insurance companies. In addition, State Tax Form 2 has been revised to inform filers to include taxable construction work in progress (CWIP). State Tax Form 2MT has been revised to inform filers to include certain uninterruptible power supplies (UPS) connected to power generation and distribution systems.

### **December Municipal Calendar**

<b>December 1</b>	<b>Taxpayer</b>	<b>Deadline for Applying for Property Tax Exemptions for Persons</b>  If tax bills are mailed after September 15, taxpayers have 3 months from the mailing date to file applications for exemptions.
<b>December 15</b>	<b>Accountant/ Superintendent/ School Committee</b>	<b>Submit Amendments to End of School Year Report to DESE</b>  Last filing date to impact next year's Chapter 70 State Aid.
<b>December 31</b>	<b>Water/Sewer Commissioners</b>	<b>Deadline for Betterments to</b>

		be Included on Next Year's Tax Bill (M.G.L. Ch. 80, Sec. 13; Ch. 40, Sec. 42I and Ch. 83, Sec. 27)
<b>December 31</b>	<b>Selectmen</b>	<b>Begin to Finalize Budget Recommendation for Review by Finance Committee</b>
<b>December 31</b>	<b>Assessors</b>	<b>Mail 3ABC Forms to Charitable Organizations and Forms of List to Personal Property Owners.</b>
<b>December 31</b>	<b>Collector</b>	<b>Deadline for Mailing Actual Tax Bills</b>  For communities using the annual preliminary billing system on a quarterly or semi-annual basis, the actual tax bills should be mailed by this date.
<b>Final Day of Each Month</b>	<b>State Treasurer</b>	<b>Notification of monthly local aid distribution.</b>  Click <a href="http://www.mass.gov/treasury/cash-management">www.mass.gov/treasury/cash-management</a> to view distribution breakdown.

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